

Message Text

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ACTION EB-07

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AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01

H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03 PA-01

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TO SECSTATE WASHDC 8454

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C O N F I D E N T I A L LAGOS 2586

E.O. 11652: GDS

TAGS: ENRG, NI

SUBJECT: EFFECTS OF NIGERIAN DEMANDS ON OIL COMPANIES

REFS: LAGOS 2457 AND 2516

1. PRODUCING COMPANIES' CLAIMS THAT NEW ROYALTY AND TAX TERMS BEING DEMANDED BY NIGERIAN GOVERNMENT WOULD LEAVE THEM WITH MARGINS FROM ZERO TO 16 CENTS PER BARREL AND CHANGE THEIR PROFIT SPLIT WITH GOVERNMENT FROM APPROXIMATELY 95/5 TO 99/1 ARE SUBSTANTIATED BY EMBASSY CALCULATIONS. THE DIFFERENCE BETWEEN RELATIVELY HIGH MARGINS OF SHELL-BP (16 CENTS) AND ELF (14 CENTS) AND THE LOW MARGINS OF GULF (10 CENTS), MOBIL (6 CENTS), AND AGIP/PHILLIPS (ZERO) IS MORE A FUNCTION OF GRAVITY THAN PRODUCTION COSTS. REVISION OF THE SYSTEM OF GRAVITY DIFFERENTIALS COULD REDUCE THE DIFFERENCES AMONG COMPANIES, BUT INCREASED PRODUCTION COSTS MEAN THAT ALL COMPANIES WOULD STILL FACE A DECREASING SHARE OF THE PROFITS UNLESS THE FMG AGREES TO REDUCE GOVERNMENT TAKE. ACCORDING TO THE COMPANIES, PRESENT FREIGHT AND QUALITY DIFFERENCES BETWEEN NIGERIAN LIGHT
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AND MARKER CRUDE WOULD TURN EVEN THESE SMALL PROFITS INTO ACTUAL

LOSSES.

2. FOLLOWING TABLE ILLUSTRATES EFFECT OF GRAVITY AND PRODUCTION COSTS ON COST OF CRUDE OIL PRODUCED BY EACH OF THE FIVE COMPANIES UNDER TAX AND ROYALTY BEING DEMANDED BY FMG:

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
SHELL-BP	32	-.030	11.759	.60#	10.993	.157	98.6
ELF	25	-.135	11.645	1.40#	10.106	.139	98.6
GULF	34	0	11.789	1.22	10.455	.105	99.0
MOBIL	37	PLUS	.045	11.825	1.08	10.682	.063 99.4
AGIP/PHILLIPS	40	PLUS	.090	11.870	1.36	10.517	-.007 100.1
REAL AVERAGE	34	0	11.780	.80#	10.847	.133	98.8
AV. USED BY FMG	34	0	11.780	.40	11.220	.160	98.6

COLUMN (1) OF TABLE IS AVERAGE GRAVITY IN DEGREES A.P.I., COLUMN (2) GRAVITY DIFFERENTIAL AT 1.5 CENTS PER DEGREE A.P.I., COLUMN 2;(3) GOVERNMENT SALE PRICE FOR BUY-BACK AND DIRECT SALE OIL IN US DOLLARS PER BARREL ADJUSTED FOR GRAVITY, COLUMN (4) TECHNICAL PRODUCTION COSTS FORECAST FOR CY 1975, COLUMN (5) WEIGHTED AVERAGE GOVERNMENT TAKE, COLUMN (6) COMPANY MARTIN, AND COLUMN (7) GOVERNMENT TAKE AS PERCENT OF TOTAL PROFIT. PROPOSED GOVERNMENT SALE PRICE (\$11.78) PER BARREL) PLUS GRAVITY DIFFERENTIAL (2) EQUALS ADJUSTED SALE PRICE OR SO-CALLED MARKET PRICE (3). THIS IS ALLOCATED TO PRODUCTION COSTS (4), GOVERNMENT TAKE (5), AND COMPANY MARGIN (6). CROSSHATCH (#) INDICATES ESTIMATE; OTHER COSTS PROVIDED CONFIDENTIALLY BY COMPANIES, NOT NECESSARILY BY COMPANY CONCERNED.

3. FOREGOING TABLE CALCULATES COMPANY MARGIN (COLUMN 6) AS DIFFERENCE BETWEEN PROPOSED GOVERNMENT SALE PRICE ADJUSTED FOR GRAVITY (COLUMN 3) AND WEIGHTED AVERAGE COST OF EACH COMPANY'S TOTAL PRODUCTION (SHOWN BELOW). ACCORDING TO THE COMPANIES, PROPOSED GOVERNMENT SALE PRICE IS UNREALISTICALLY HIGH. COMBINING MANY FACTORS (INCLUDING ITS OWN PRODUCT MIX), MOBIL OIL COMPANY CALCULATES THAT TERM MARKET FOR ITS 37-DEGREE NIGERIAN CRUDE IS \$11.59 PER BARREL, I.E. \$10.46 FOR MARKER CRUDE PLUS \$.55 FRIEHT ADVANTAGE AND \$.58 QUALITY ADVANTAGE. USING THIS AS GUIDE AND ASSUMING (AS MOBIL DOES) A GRAVITY

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DIFFERENTIAL OF \$.03 PER DEGREE, FOLLOWING TABLE ILLUSTRATES MAGNITUDE OF LOSSES PRODUCING COMPANIES MIGHT FACE IF TERMS BEING DEMANDED BY FMG ARE ACTUALLY IMPLEMENTED:

	(1)	(2)	(3)	(4)
SHELL-BP	32	11.44	11.593	-.153
ELF	25	11.23	11.506	-.276
GULF	34	11.50	11.675	-.175

MOBIL 37 11.59 11.762 -.172
AGIP/PHILLIPS 40 11.68 11.877 -.197

COLUMN (1) OF TABLE IS AVERAGE GRAVITY IN DEGREES A.P.I.,
COLUMN (2) ESTIMATED TERM MARKET PRICE ADJUSTED FOR GRAVITY,
COLUMN (3) WEIGHTED AVERAGE COST OF ALL OIL PRODUCED IN
NIGERIA BY GIVEN COMPANY, AND COLUMN (4) ANTICIPATED
LOSS (2-3).

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